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Gender gap in financial literacy transcends national borders

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Women tend to be considerably less knowledgeable about personal finance than men, and that can put their economic security at higher risk. This gender gap in financial literacy exists not only in the United States but in many other developed countries as well, and it is found among people of all ages, education levels, and other socioeconomic characteristics.

Those are some of the key findings from "How financially literate are women? An overview and new insights," by Tabea Bucher-Koenen, Annamaria Lusardi, Rob Alessie, and Maarten van Rooij (National Bureau of Economic Research, working paper no. 20793, December 2014).

The data derive from three simple survey questions developed by Lusardi together with Olivia S. Mitchell for the U.S. Health and Retirement Study. The same questions have been used in other U.S. studies and have now been translated and used for studies in more than 20 countries. Thus, this NBER analysis is able to directly compare findings from different countries and across varying institutional frameworks. The authors focus primarily on the United States, the Netherlands, and Germany.

These are the three questions and the answer choices provided to survey respondents:

1. Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow? More than $102; Exactly $102; Less than $102; Do not know; Refuse to answer.
2. Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in this account? More than today; Exactly the same; Less than today; Do not know; Refuse to answer.
3. Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund." True; False; Do not know; Refuse to answer.

In the United States, 38 percent of men answered all three questions correctly compared with only 22 percent of women. In the Netherlands, 55 percent of men and 35 percent of women got all three right, and in Germany the results were 60 percent for men and 48 percent for women.

A large gender gap was found not just among married women but also among single women and widows, for whom being able to make smart independent financial decisions is likely to have added importance. The gap was observed among economically disadvantaged women as well as those in favorable economic circumstances, and it was apparent even among young women, who tend to have greater levels of education and workforce participation. Even when women are the household decision makers, they tend to have less financial knowledge than men who are household decision makers.

The authors demonstrate that having less financial literacy correlates with less engagement in behaviors crucial to long-term financial well-being, such as planning for retirement, investment in stocks, attainment of lower borrowing costs, and attention to fees. The study also found that even though women are less knowledgeable about finance, they are less likely than men to seek financial advice. The gender gap in financial literacy, the authors observe, is likely to gain importance amid increasing pressure for individuals to be responsible for their own investment planning, rather than being able to rely on the traditional defined-benefit pension plans that had been a cornerstone of previous generations’ retirement security.

Some notable exceptions did arise. For instance, the data show that while the financial-literacy gender gap is large in the former West Germany, there is no statistically significant gap in the former East Germany. Nor do the data show a statistically significant gap in another formerly communist country—Russia. The authors pose several possible explanations: The difference could be because there had been greater gender equality under communism, or simply because the overall populace of those countries still has less experience with market-driven economies than do people living elsewhere.